

MEMORANDUM FOR: Chief, Audit Staff

VIA: Inspector General

FROM: James N. Glerum  
Director of Personnel

SUBJECT: Report of Audit, Government Employees Health  
Association, Inc., for the period 1 January 1981 -  
31 December 1981

1. I have received the 1981 GEHA Report of Audit and noted the three recommendations contained therein. While these recommendations (incorporated from previous reports) have not been fully resolved, there has been, as noted in your report, significant activity and resources directed towards achieving a final settlement. The GEHA Board of Directors is scheduled to meet in the near future to review the results of this activity and following that review I will advise you of their recommendations for action necessary to resolve these issues.

2. In the interim, I wish to commend the audit team for their performance in conducting this survey. Their work was accomplished in a courteous, professional manner with little or no disruption to ongoing activity. Please convey my appreciation for a job well done.

James N. Glerum

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15 June 1982

MEMORANDUM FOR: Director of Personnel

VIA: A/Inspector General *h*

FROM:   
Chief, Audit Staff

SUBJECT: Report of Audit, Government Employees  
Health Association, Inc., For the Period  
1 January 1981 - 31 December 1981

1. Subject report is attached. Please advise me of the action taken on the recommendations contained in the report.

2. We appreciate the cooperation and assistance provided by your staff during the audit.



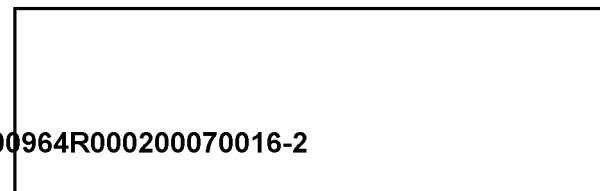
Attachment:  
As stated

Distribution:

- ~~Orig.~~ - D/Pers
- 1 - C/Board of Directors
- 1 - D/OF
- 1 - O/Compt/BMG

WARNING NOTICE  
SENSITIVE INTELLIGENCE SOURCES  
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REPORT OF AUDIT  
Government Employees Health Association, Inc.

For the Period  
1 January 1981 - 31 December 1981

SUMMARY

1. The Government Employees Health Association, Inc. (GEHA) continues to be administered in an efficient manner. Administrative controls, procedures and records were generally effective and in accordance with applicable requirements. Three of the 31 December 1979 audit recommendations concerning investment performance have not been completely resolved. These are commented on again in this report. Observations pertaining to other administrative matters were discussed with responsible officers and resolved during the audit.

SCOPE AND OPINION

2. We have examined the GEHA statement of financial position as of 31 December 1981 and the related statements of changes in reserve fund balances and changes in financial position. The examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and other auditing procedures, including a review of claim settlement procedures by GEHA, as we considered necessary under the circumstances.

3. In our opinion, the above mentioned financial statements, Exhibits A, B, and C, present fairly the financial position of GEHA at 31 December 1981 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

BACKGROUND

4. GEHA is a tax-exempt organization incorporated in the District of Columbia to administer employee insurance programs in accordance with Agency operational and security requirements. An elected Board of Directors prescribes GEHA operating policies. The daily business is conducted by the Insurance Branch of the Benefits and Services Division in the Office of Personnel. GEHA reimburses the Agency for the services of [redacted] employees in the Insurance Branch.

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5. GEHA maintains about  insurance accounts for active and retired employees. The following plans are in effect:

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PLANS

ACCOUNTS

Life Insurance:

United Benefit Life Insurance Company  
Active  
Retired

Worldwide Assurance for Employees  
of Public Agencies

Health Insurance:

Association Benefit Plan  
Active  
Retired

Contract Hospitalization

Specified Diseases

Disability Insurance:

Income Replacement

Accidental Death and Dismemberment Insurance:

Flight and Accident

Travel Insurance:

Air Flight

Military Air Flight

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6. The Association Benefit Plan received subscription income of \$17.8 million, paid out benefits of \$18.1 million, and incurred net operating expenses of \$1.2 million for a net underwriting loss of \$1.5 million. This loss was offset from reserves held by Mutual of Omaha. GEHA has reduced certain benefits (as mandated by the Office of Personnel Management) and increased premiums for 1982 to bring the program back to a self-sustaining basis.

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DETAILED COMMENTS

Investment Performance

7. The 31 December 1979 report of audit contained several recommendations concerning management of GEHA's investment portfolio by BEA Associates, an investment management firm. GEHA management is working on the three recommendations not yet resolved. The GEHA Board of Directors has appointed an Investment Committee which hired an outside consultant [redacted] to assist in the review and evaluation of GEHA's investment policy and BEA's performance. This committee has had meetings with BEA and with [redacted] has requested and received additional data from BEA for analysis and comment by [redacted] and has scheduled a meeting of the Board of Directors, BEA representatives, and [redacted] in July 1982. These actions should provide the Board of Directors with the information necessary to comply with the recommendations. We hereby incorporate those recommendations not yet cleared in this report:

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Recommendation #1: That the GEHA Board of Directors reevaluate and document GEHA's investment objectives.

Recommendation #2: That the GEHA Board of Directors consider whether dealing through other investment broker(s), or adopting an alternate means of handling investments, might be more advantageous than current arrangements, and that it document both the decisions and the basis on which they are made.

Recommendation #3: That the GEHA Board of Directors establish a written policy concerning the holding of fixed income securities which have declined in current market value but are yielding a high rate of return, and that the policy determined be issued as mandatory guidance to any entity executing investment decisions on behalf of GEHA.

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Exhibit A

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Government Employees Health Association, Inc.  
Statement of Financial Position  
31 December 1981 and 1980

	<u>ASSETS</u>	<u>1981</u>	<u>1980</u>
Cash	\$	241,902	\$ 454,446
Investments (Note 1)		4,782,454	4,426,411
Claims Receivable		244,836	80,137
Contingent Assets:			
Funds Withheld by Underwriter for Specified Policyholders		139,666	154,666
Less: Reserves		(139,666)	(154,666)
Equipment (Net of Depreciation)		<u>1,734</u>	<u>2,312</u>
Total Assets		<u>\$5,270,926</u>	<u>\$4,963,306</u>

LIABILITIES AND RESERVES

Accounts Payable	\$	27,389	\$ 6,796
Prepaid Premiums		181,205	180,357
Accrued Salaries		49,951	24,543
Accrued Dependent Premiums		<u>17,941</u>	<u>16,804</u>
Total Liabilities		276,486	228,500
Reserves (Exhibit B)		<u>4,994,440</u>	<u>4,734,806</u>
Total Liabilities and Reserves		<u>\$5,270,926</u>	<u>\$4,963,306</u>

Note 1: Investments are recorded at cost; market value at 31 December 1981 was \$4,373,300 and at 31 December 1980 was \$4,250,700.

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Government Employees Health Association, Inc.  
Statement of Changes in Reserve Fund Balances  
For the Year Ended 31 December 1981

	Total	UBLIC Investment in Common Stock	UBLIC General	Association Benefit Plan	Air Flight Plan	Contract Hospital- ization	General Fund
Balance, 1 January 1981	\$4,734,806	\$378,258	\$3,855,560	\$332,239	\$30,825	\$77,660	\$60,264
Increases:							
Premiums Withheld from or Returned by Underwriter	649,357		194,721	444,942	695	8,999	
Investment Income	558,764	75,469	462,996		3,722	9,328	7,249
Gain on Sale of Stock	122,459	122,459					
Miscellaneous	978						978
Total Increases	1,331,558	197,928	657,717	444,942	4,417	18,327	8,227
Decreases:							
Salaries	527,676		19,956	492,096	3,125	12,499	
Premiums for UBLIC Dependent Coverage	43,031		43,031				
Loss on Sale of Bonds	441,439		422,898		3,399	8,520	6,622
Investment Fees and Expenses	48,639	15,759	31,499		253	635	493
Miscellaneous	11,139		2,000	5,813			3,326
Total Decreases	1,071,924	15,759	519,384	497,909	6,777	21,654	10,441
Balance, 31 December 1981	\$4,994,440	\$560,427	\$3,993,893	\$279,272	\$28,465	\$74,333	\$58,050



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Exhibit C

Government Employees Health Association, Inc.  
Statement of Changes in Financial Position  
For the Year Ended 31 December 1981

Resources Provided by:

Sale of Investments	\$13,923,816
Claims Reimbursed by Underwriters:	
Hospitalization	9,750,711
Death	606,254
*Premiums from Policyholders	1,124,115
Premiums from Underwriters	649,357
Interest Income	483,295
Dividend Income	75,469
Decrease in Cash	212,544
Increase in Accounts Payable	47,138
Miscellaneous	978
	<u>\$26,873,677</u>

Resources Applied to:

Purchase of Investments	\$14,598,839
Claims Paid to Policyholders:	
Hospitalization	9,915,410
Death	606,254
*Premiums Paid to Underwriters	1,166,298
Salaries Paid	527,676
Investment Fees and Expenses	48,639
Miscellaneous	10,561
	<u>\$26,873,677</u>

\* Does not include premiums of \$17.8 million for Associated Benefit Plan which are withheld by payroll and passed through GEHA to Mutual of Omaha.

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